

annual report December 31, 1966

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**the
Glengair Group
limited**

THE GLENGAIR GROUP LIMITED

Directors

J. S. GAIRDNER
J. H. GAIRDNER
J. HOWARD HAWKE
C. W. LEONARDI, F.C.A.
J. A. MULLIN, Q.C.

Officers

J. S. GAIRDNER, *President*
C. W. LEONARDI, F.C.A., *Vice President and Treasurer*
GEORGE L. PLODER, C.A., *Assistant Treasurer*
GRACE L. MAYBURY, *Secretary*
C. H. HOLLINGSHEAD, *Assistant Secretary*

Transfer Agent and Registrar

CANADA PERMANENT TRUST COMPANY
Montreal, Toronto, Winnipeg, Vancouver

Trustee - Debentures

THE ROYAL TRUST COMPANY
Montreal, Toronto, Winnipeg, Vancouver

Auditors

GLENDINNING, JARRETT, GOULD & Co., *Chartered Accountants*
Toronto

Solicitors

FRASER, BEATTY, TUCKER, MCINTOSH & STEWART
Toronto

Listed

MONTREAL STOCK EXCHANGE

THE GLENGAIR GROUP LIMITED



J. S. GAIRDNER
President

Report to the Shareholders:

I am pleased to present to shareholders our annual report. The year ended on a note of optimism although it had been complicated by many problems, particularly in the operating branches of the company. Labour disputes at both Northern Tar, Chemical and Wood Limited and Canada Brick Company disrupted operations during the year, and the tight money situation that was generally felt throughout the country seriously affected operating results.

Toward the close of the year, a major corporation joined THE GLENGAIR GROUP with the acquisition of control of Tancord Industries Ltd. including its wholly-owned division The Brantford Cordage Company.

EARNINGS FROM OPERATIONS:

Net earnings for the year of \$384,200 were substantially lower than we had anticipated, mainly for the reasons noted above. This figure does not include the annual results of Tancord Industries since that company was acquired late in the year. However, included in this Report is a Pro Forma Statement of Consolidated Earnings that combines Tancord figures for the fiscal year ended October 31, 1966 with the financial results of THE GLENGAIR GROUP, as though Tancord Industries had been a subsidiary for the past fiscal year. On this basis, Pro Forma net earnings would have amounted to \$996,850.

INVESTMENT PORTFOLIO:

										Marketable Securities*	
										Cost	Market
as at December 31, 1966	-	-	-	-	-	-	-	-	-	\$5,169,765	\$6,351,073
as at December 31, 1965	-	-	-	-	-	-	-	-	-	4,483,666	4,694,697
Increase	-	-	-	-	-	-	-	-	-	686,099	1,656,376

*excluding shares of Tancord Industries Ltd.

During the year there was a substantial increase in the value of marketable securities over the cost of acquisition thereof. In view of the general market performance of listed and unlisted securities this past year, we are gratified by the above-average performance of our investment portfolio.

OPERATIONS:*Canada Brick Company*

During the year Canada Brick constructed and put into operation an additional kiln for the production of clay bricks. Canada Brick now has a production capacity of 84,000,000 bricks annually, the largest of any plant in Ontario. However, results of operations for the year were much lower than anticipated.

The strike, which occurred during August, was in itself costly and resulted in higher labour costs for the last six months of the year. Technical difficulties and heavy start-up expenses of the new kiln also proved costly, and the effect of some of these difficulties was still being felt during the first quarter of the current year.

The lack of mortgage funds which developed during the year and which sharply curtailed building activities caused a much reduced demand for the company's products, whereas all earlier indications had pointed to increased sales for the year. Some easing of this situation has already been noticed and substantial improvements are expected in the latter half of the year. At that time it is anticipated that the upsurge in residential construction, particularly in Canada Brick's prime marketing areas, will create the need for full production from our increased facilities.

With its expansion program now completed Canada Brick will be able to maintain its position among the leading suppliers to the industry.

Northern Tar, Chemical and Wood Limited

Profits for the year ended December 31, 1966 were slightly lower than the previous year because of increased labour costs pursuant to a strike at the Port Arthur Plant and because of disruption caused to the company's operations in Prince Albert, Saskatchewan when a fire destroyed the pole handling equipment.

The replacement of damaged equipment at Prince Albert has been completed with the installation of modern, automated pole handling machinery. The Prince Albert plant now has the most modern equipment installation in the industry. Capital expenditures were also made at the Port Arthur plant to increase efficiency and stabilize operations.

Reflecting current market trends, Nortar is placing increased emphasis on wood chips for the paper industry, and as a result of this and other diversification of products is in a position to increase production efficiency and make fuller utilization of the natural resources of the forest.

Pressure treated railway ties, utility poles and similar products in which Nortar specializes have remained in good demand and increased production is expected to result during the coming year. The acceleration of activity in the construction field should favourably affect the demand for building lumber.

Tancord Industries Ltd.

Prior to the Company's year end, control was acquired of Tancord Industries Ltd. and its wholly-owned division, The Brantford Cordage Company. Since the purchase was completed subsequent to Tancord's fiscal year end, October 31, the Statement of Consolidated Earnings does not include any part of the earnings of that company. Tancord will make major contributions to the future earnings of THE GLENGAIR GROUP.

The Brantford Cordage Company is the largest manufacturer in the British Commonwealth, of ropes and twines, from both natural and synthetic fibres. Its principal products are Baler and Binder Twine for agricultural purposes, as well as ropes and twines to service the marine, fishing, hardware, manufacturing and other industries.

Its wholly-owned subsidiary, Synthetic Ropes & Twines Limited, is engaged in the production of synthetic fibre ropes and tying twines with a variety of applications. It is a major supplier of twine for use in the harvesting of tobacco and has been successful in developing and marketing new products for the fishing and boating industries as well as retail outlets.

Plant and equipment have been operating at capacity throughout the year, and additional plastic extrusion equipment will be installed in the near future to accommodate the growing demand for synthetic fibre products.

* * *

A substantial amount of the instalment accounts receivable has been collected. At year end these accounts totalled \$716,063 (against which there was a reserve of \$582,627) compared to a total of \$1,999,778 as at December 31, 1965. The reserve is expected to be more than adequate.

THE GLENGAIR GROUP is now embarked on another year of operations with renewed emphasis on its stated objective—to increase earning power and assets, both through operations and through acquisition. The present operations, including the investment portfolio, along with the consolidation of Tancord Industries Ltd. provide the base from which this objective can be achieved.

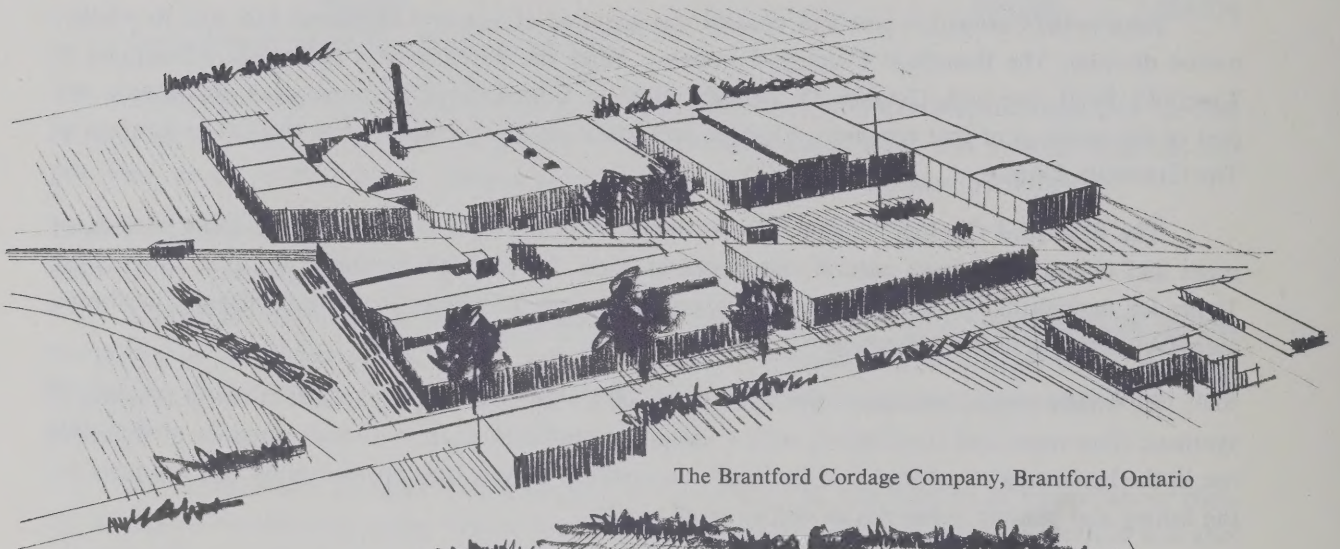
The Board of Directors wishes to acknowledge the support and efforts of its officers, employees, associates and shareholders throughout the year.

On behalf of the Board of Directors,

J. S. GAIRDNER
President

March 29, 1967

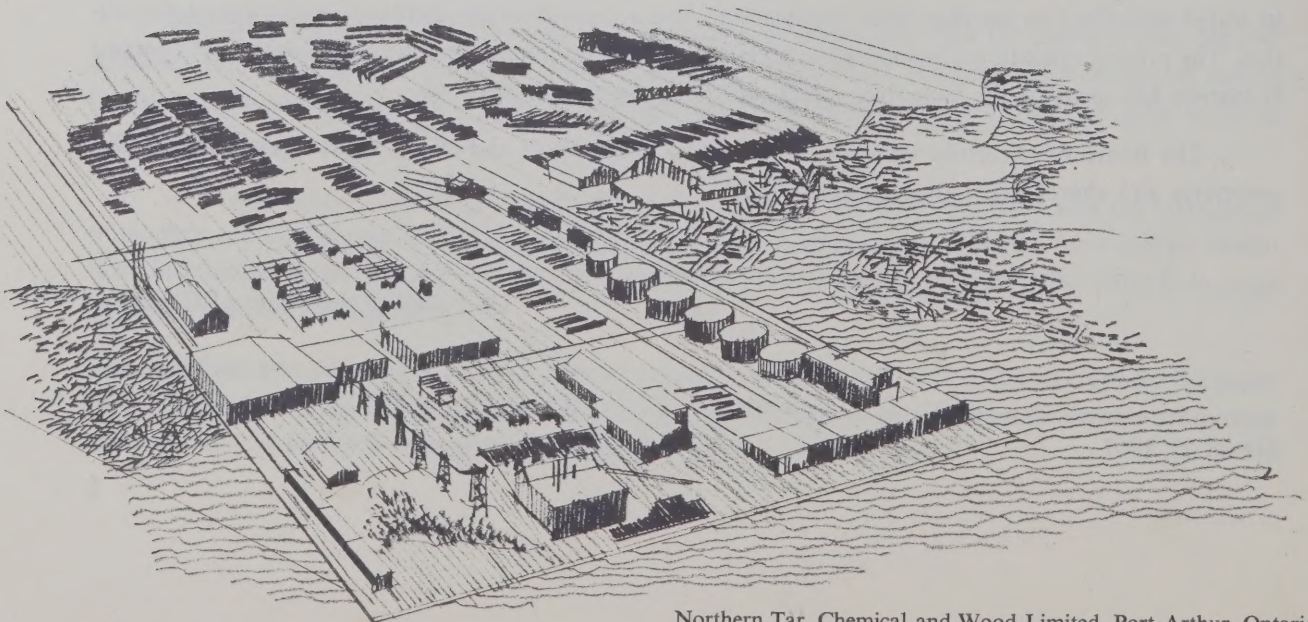
Subsidiary Operations



The Brantford Cordage Company, Brantford, Ontario



Canada Brick Company, Streetsville, Ontario



Northern Tar, Chemical and Wood Limited, Port Arthur, Ontario

Investment Portfolio

Marketable Securities shown on the Consolidated Balance Sheet at December 31, 1966,
in the amount of - - - - - \$6,351,073
comprise the following:

18,075	Atlantic Sugar Refineries Co. Limited	Common shares
118,700	Bartaco Industries Limited	Common shares
13,833	Canadian Gas and Energy Fund Ltd.	Preference shares
85,000	Canadian Gas and Energy Fund Ltd.	Series "B" Purchase Warrants
266,954	Canadian Security Management Limited	Class "A" shares
\$125,000	Canadian Security Management Limited	7% Convertible debentures due November 1, 1971
163,149	Capital Building Industries Limited	Shares
120,000	Consolidated Building Corporation Limited	Common shares
11,632	District Trust Company	Shares
2,600	District Trust Company	Purchase Warrants
7,454	Exquisite Form Brassiere (Canada) Limited	Common shares
62,263	I.T.L. Industries Limited	Common shares
830,221½	The International Helium Company Limited	Shares
6,946	The Seaway Hotels Limited	Shares
143,010	Venezuelan Power Company Limited	Common shares
209,800	Venezuelan Power Company Limited	Preferred shares
\$1,094,850	Venezuelan Power Company Limited	Series "A" 6% Debentures due January 15, 1986
7,500	West Indies Plantation Limited	Common shares

THE GLENGAIR

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Assets			
		1966	1965*
CURRENT			
Cash - - - - -		\$ 1,340,855	792,478
Short-term investments, at cost - - - - -			1,406,298
Funds held by trustee re plant expansion - - - - -		64,412	
Accounts receivable			
Trade, less allowance for doubtful accounts (1966—\$56,380; 1965—\$50,952) - - - - -	\$2,563,195		
Instalment, less allowance for doubtful accounts (1966—\$582,627; 1965—\$1,000,000) - - - - -	133,436		
Miscellaneous - - - - -	26,032	2,722,663	2,934,436
Inventories, valued at the lower of cost and market value - - - - -		6,135,198	2,705,330
Cash surrender value of life insurance - - - - -		60,378	55,149
Prepaid expenses - - - - -		63,885	66,311
Other assets - - - - -		52,901	17,500
		\$10,440,292	7,977,502
MARKETABLE SECURITIES (Notes 2 and 3) - - - - -		\$ 6,351,073	5,696,135
LONG-TERM MORTGAGES RECEIVABLE - - - - -		\$ 10,733	12,329
SPECIAL REFUNDABLE TAX - - - - -		\$ 18,143	
FIXED (Note 4)			
Land, shale deposits, railway siding, buildings, machinery, equipment and leasehold improvements - - - - -		\$16,168,750	10,724,717
Less: Accumulated depreciation, depletion and amortization - - - - -		5,771,507	4,496,237
		\$10,397,243	6,228,480
DEFERRED CHARGES			
Organization and financing costs including discount on long-term debt, less amortization - - - - -		\$ 660,319	581,307
Goodwill and patent rights - - - - -		14,494	14,491
		\$ 674,813	595,798
EXCESS OF COST OF INVESTMENT IN SUBSIDIARIES OVER BOOK VALUE OF NET ASSETS ACQUIRED - - - - -		\$ 422,558	446,476
Approved on behalf of the Board			
J. S. GAIRDNER, <i>Director</i>			
C. W. LEONARDI, <i>Director</i>			
		\$28,314,855	20,956,720

*Pro forma consolidated balance sheet 'A'—December 31, 1965.

The notes appended hereto form

GROUP LIMITED

of the Province of Ontario)

ary companies

Balance Sheet

per 31, 1966

figures for 1965)

Liabilities

CURRENT

	1966	1965*
Bank advances (secured) - - - - -	\$ 3,374,431	3,795,885
Payable in respect of acquisition of shares of subsidiary company (Note 9) - -	2,143,942	
Accounts payable and accrued liabilities - - - - -	1,603,261	950,258
Notes payable due within one year (secured) - - - - -		1,000,000
Due to broker (secured) - - - - -		978,745
Due to affiliated company (secured) - - - - -	510,221	
Provision for income taxes (Note 5) - - - - -	85,257	576,884
Current instalments of long-term debt - - - - -	270,000	70,000
Dividends payable to minority shareholders of subsidiary - - - - -	22,269	21,306
Interest accrued on short-term and long-term debt - - - - -		127,465
Holdbacks on construction in progress - - - - -	88,563	
	<u>\$ 8,097,944</u>	<u>7,520,543</u>

LONG-TERM DEBT (Less current instalments) (Note 6)

Parent Company - - - - -	\$ 4,262,580	2,362,580
Subsidiary Companies - - - - -	\$ 4,320,000	3,090,000

MINORITY INTEREST IN SUBSIDIARY COMPANIES

Preference shares—par value - - - - -	\$ 2,429,070	900,000
Common shareholders' equity in capital stock and surplus - - - - -	1,380,918	579,615
	<u>\$ 3,809,988</u>	<u>1,479,615</u>

Shareholders' Equity

CAPITAL (Notes 8 and 9)

Authorized—10,000,000 common shares without par value		
Issued and fully paid—7,332,976 common shares (1965 7,255,071 shares) - - -	\$ 7,497,656	7,466,666
UNREALIZED APPRECIATION OF MARKETABLE SECURITIES - - - - -	1,160,216	211,243
DEFICIT - - - - -	(833,529)	(1,173,927)
	<u>\$ 7,824,343</u>	<u>6,503,982</u>
	<u><u>\$28,314,855</u></u>	<u><u>20,956,720</u></u>

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THE GLENGAIR GROUP LIMITED

and its subsidiary companies

Consolidated Statement of Earnings for the year ended December 31, 1966

SALES (net) - - - - -		\$10,437,384
COST OF SALES - - - - -		7,852,350
GROSS EARNINGS FROM OPERATIONS - - - - -		\$ 2,585,034
OPERATING EXPENSES		
Administration and selling - - - - -	\$ 1,080,209	
Depreciation and depletion - - - - -	373,809	1,454,018
NET EARNINGS FROM OPERATIONS - - - - -		\$ 1,131,016
FINANCIAL EXPENSES		
Debentures—interest - - - - -	\$ 435,777	
—amortization of financing costs - - - - -	30,860	
—trustees' fees and expenses - - - - -	6,115	
	\$ 472,752	
Other interest - - - - -	277,112	749,864
		\$ 381,152
INVESTMENT AND OTHER INCOME		
Interest - - - - -	\$ 121,378	
Dividends - - - - -	48,969	
Sundry - - - - -	59,934	230,281
		\$ 611,433
NON-RECURRING INCOME—net - - - - -		14,786
		\$ 626,219
PROVISION FOR INCOME TAXES - - - - -		180,255
NET EARNINGS BEFORE MINORITY INTEREST - - - - -		\$ 445,964
Minority interest in common shares - - - - -		61,764
NET EARNINGS FOR THE YEAR - - - - -		\$ 384,200

Consolidated Statement of Deficit for the year ended December 31, 1966

DEFICIT FROM OPERATIONS		
Balance January 1, 1966 - - - - -		\$ 1,173,927
Deduct: Net earnings for the year - - - - -		384,200
		\$ 789,727
Add: Preferred dividends to minority interest in subsidiary company - - - - -		48,868
Balance December 31, 1966 - - - - -		\$ 838,595
REALIZED APPRECIATION ON MARKETABLE SECURITIES		
Additions during year - - - - -		\$ 5,066
Balance December 31, 1966 - - - - -		\$ 5,066
NET DEFICIT DECEMBER 31, 1966 - - - - -		\$ 833,529

Auditors' Report

To the Shareholders,
THE GLENGAIR GROUP LIMITED.

We have examined the consolidated balance sheet of The Glengair Group Limited as at December 31, 1966 and the related consolidated statements of earnings, deficit and source and application of funds for the year ended on that date. Our examination of the financial statements of The Glengair Group Limited and those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of earnings, deficit and source and application of funds together with the notes appended thereto, present fairly the financial position of the companies as at December 31, 1966 and the results of their operations for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario,
March 10, 1967.

GLENDINNING, JARRETT, GOULD & Co.
Chartered Accountants

THE GLENGAIR GROUP LIMITED

and its subsidiary companies

Pro Forma Combined Statement of Earnings (Note) for the year ended December 31, 1966

SALES (Net) - - - - -		\$20,583,688
COST OF SALES - - - - -		16,038,766
GROSS EARNINGS FROM OPERATIONS - - - - -		\$ 4,544,922
OPERATING EXPENSES		
Administration and selling - - - - -	\$ 1,959,916	
Depreciation and depletion - - - - -	501,088	2,461,004
NET EARNINGS FROM OPERATIONS - - - - -		\$ 2,083,918
FINANCIAL EXPENSES		
Debentures—interest - - - - -	\$ 486,765	
—amortization of financing costs - - - - -	70,364	
—trustees' fees and expenses - - - - -	6,115	
	\$ 563,244	
Other interest - - - - -	428,078	991,322
		\$ 1,092,596
INVESTMENT AND OTHER INCOME		
Interest - - - - -	\$ 121,378	
Dividends - - - - -	42,968	
Sundry - - - - -	68,584	232,930
		\$ 1,325,526
NON-RECURRING INCOME (Net) - - - - -		101,579
		\$ 1,427,105
PROVISION FOR INCOME TAXES - - - - -		180,255
NET EARNINGS BEFORE MINORITY INTEREST - - - - -		\$ 1,246,850
Minority interest in common shares - - - - -		250,000
NET EARNINGS FOR THE YEAR - - - - -		\$ 996,850

NOTE: The pro forma combined statement, shown above, has been prepared from the consolidated statement of earnings of The Glengair Group as at December 31, 1966 and the consolidated statement of income of Tancord Industries Ltd. as at October 31, 1966, as if Tancord Industries Ltd. had been a subsidiary for the entire fiscal year. Interest on additional funds borrowed as a result of the acquisition of the controlling interest has been reflected.

Income tax provision has been reduced by approximately \$219,000 due to claims for capital cost allowances in excess of amounts of depreciation recorded on the books of the relevant companies and by approximately \$435,000 due to application of loss carry forwards of Tancord Industries Ltd.

Preferred dividends to minority interests in subsidiary companies have not been deducted.

Auditors' Report

To the Directors,
THE GLENGAIR GROUP LIMITED.

We have prepared the accompanying pro forma combined statement of earnings for the year ended December 31, 1966. This statement of earnings has been prepared from the consolidated statement of earnings of The Glengair Group Limited for the year ended December 31, 1966 and the consolidated statement of income of Tancord Industries Ltd. for the year ended October 31, 1966 as if Tancord Industries Ltd. had been a subsidiary for the entire fiscal year.

In our opinion the accompanying pro forma combined statement of earnings for the year ended December 31, 1966, together with the note appended thereto, presents fairly the pro forma combined earnings for the year, in accordance with generally accepted accounting principles.

Toronto, Ontario,
March 10, 1967.

GLENDINNING, JARRETT, GOULD & Co.
Chartered Accountants

THE GLENGAIR GROUP LIMITED

and its subsidiary companies

Consolidated Statement of Source and Application of Funds (Note) *for the year ended December 31, 1966*

SOURCE OF FUNDS

Net earnings for the year - - - - -		\$ 384,200
Add: Charges deducted therefrom, not requiring an outlay of funds		
Depreciation and depletion - - - - -		373,809
Amortization of deferred financing costs - - - - -		30,860
Minority interest in net earnings - - - - -		61,764
Total funds from operations - - - - -		\$ 850,633
Long-term financing		
6½ % Sinking Fund Debentures Series 'B' due June 30, 1976—par value \$2,000,000		
Less: Cost of issue and discount - - - - -	105,547	1,894,453
Other		
Issue of common shares of subsidiary and parent company - - -	\$ 46,990	
Collections on long-term mortgages - - - - -	1,596	48,586
		<u>\$2,793,672</u>

APPLICATION OF FUNDS

Fixed assets purchased (net) - - - - -	\$1,369,830	
Marketable securities purchased (net) - - - - -	791,387	
Long-term debt retirement - - - - -	265,000	
Subsidiary company's preferred shares		
Redemption of shares—par - - - - -	\$26,350	
Less: Discount on redemption - - - - -	1,884	24,466
Dividends declared - - - - -		91,722
Special refundable tax - - - - -		18,143
Organization expenses deferred - - - - -	9,327	2,569,875
INCREASE IN WORKING CAPITAL, before the undernoted item - - - - -		\$ 223,797
Add: Working capital of Tancord Industries Ltd. control of which was acquired in 1966 - - - - -	\$3,805,534	
Less: Outlay of funds in acquisition of controlling interest thereof - - -	2,143,942	1,661,592
INCREASE IN WORKING CAPITAL FOR YEAR - - - - -		\$1,885,389
Add: Working capital as per pro forma consolidated balance sheet 'A' as at December 31, 1965 - - - - -		456,959
WORKING CAPITAL DECEMBER 31, 1966 - - - - -		<u><u>\$2,342,348</u></u>

NOTE: This statement of consolidated source and application of funds accounts for the increase in working capital as shown by the consolidated balance sheet of the Company as at December 31, 1966 over that shown by pro forma consolidated balance sheet 'A' of the Company as at December 31, 1965.

THE GLENGAIR GROUP LIMITED

Notes to Consolidated Financial Statements

as at December 31, 1966

1. BASIS OF CONSOLIDATION

The accompanying consolidated financial statements are based upon the December 31, 1966 financial statements of The Glengair Group Limited and its subsidiary companies, with the exception that the assets and liabilities of Tancord Industries Ltd. whose fiscal year end was October 31, 1966, have been included as of that date. Since Tancord Industries Ltd. was acquired subsequent to October 31, 1966, the statement of consolidated earnings does not include any part of the earnings of that Company.

2. MARKETABLE SECURITIES

	1966		1965	
	Cost	Market	Cost	Market
Securities listed on recognized Canadian stock exchanges (except Tancord Industries Ltd.) - - - - -	\$4,082,352	5,062,872	3,520,683	3,734,840
Unlisted securities - - - - -	1,087,413	1,288,201	962,983	959,857
	<u>\$5,169,765</u>	<u>6,351,073</u>	<u>4,483,666</u>	<u>4,694,697</u>
Tancord Industries Ltd. - - - - -	—	—	1,001,226	1,001,438
	<u>\$5,169,765</u>	<u>6,351,073</u>	<u>5,484,892</u>	<u>5,696,135</u>

Since Tancord Industries Ltd. is a consolidated subsidiary company as at December 31, 1966, no amount for the Company's investment therein appears as at that date.

3. BASIS OF VALUATION OF MARKETABLE SECURITIES

(a) Securities listed on Canadian stock exchanges have been valued at quoted market values on the relative exchanges on December 31, 1966.

(b) Unlisted securities have been stated at market values as at December 31, 1966.

4. FIXED ASSETS

Fixed assets are carried in the accounts as follows:

	Cost	Appraisal Basis 'A'	Appraisal Basis 'B'	Appraisal Basis 'C'	Total
Land - - - - -	\$ 69,000	209,000			278,000
Shale deposits - - - - -	137,610				137,610
Railway siding - - - - -		10,825			10,825
Buildings, machinery, equipment and leasehold improvements - - - - -	1,578,466	4,978,922	4,754,290	4,172,084	15,483,762
Construction in progress - - - - -		258,553			258,553
	<u>\$1,785,076</u>	<u>5,457,300</u>	<u>4,754,290</u>	<u>4,172,084</u>	<u>16,168,750</u>

Appraisal Basis 'A'—These are assets of Canada Brick Company Limited stated at values (replacement cost) determined by an appraisal made by Canadian Appraisal Company Limited as of June 30, 1965, with subsequent additions at cost. Accumulated depreciation has been determined on the basis of observed depreciation as per the appraisal referred to, plus subsequent additions thereto based on cost. Depletion has been based on production related to estimated content of shale deposits.

Appraisal Basis 'B'—These are assets of a subsidiary of Northern Tar, Chemical and Wood Limited which are stated at a valuation approved by the Board of Directors of the relevant company, being less than values (replacement cost) as determined by an appraisal made by General Appraisal Company as at November 23, 1965 with subsequent additions at cost. Depreciation has been provided on the basis of amortizing the undepreciated capital cost of the various assets over their estimated useful lives, as determined by management.

Appraisal Basis 'C'—These are assets of Tancord Industries Ltd. stated at values (replacement cost) determined by an appraisal made by Fidelity Appraisal Limited as of March 10, 1960, with subsequent additions at cost. Accumulated depreciation has been determined on the basis of observed depreciation as per the appraisal referred to plus subsequent additions thereto based on cost.

5. DEPRECIATION AND INCOME TAXES

Income taxes in respect of the current year have been reduced by approximately \$228,435 by reason of claims of capital cost allowances by subsidiary companies in excess of amounts of depreciation recorded on the books of those companies. The accumulated reduction of taxes applicable to future years is \$456,175 as at December 31, 1966.

6. LONG-TERM DEBT—PARENT \$4,262,580 (1965 \$2,362,580)

\$2,262,580—6¾% debentures Series A, due December 15, 1985 (1965 \$2,362,580)

The Company has covenanted to establish a sinking fund to provide for the retirement of \$100,000 principal amount of 6¾% debentures Series A on December 15 in each of the years 1967 to 1984 inclusive. The 1967 amount has been shown as a current liability.

\$2,000,000—6½% Sinking Fund debentures Series B, due June 30, 1976

The Company has covenanted to establish a sinking fund to provide for the retirement of 6½% Sinking Fund Debentures Series B requiring payment of \$100,000 on December 15 in each of the years 1968 to 1975 inclusive, to be applied to the purchase of 6½% Sinking Fund Debentures Series B at prices not exceeding the principal amount thereof plus accrued interest and costs of purchase, provided that the amount to be paid by the Company into such sinking fund on any such date shall not exceed the difference between \$200,000 and the amount remaining in such sinking fund and not so applied.

SUBSIDIARY COMPANIES' LONG-TERM DEBT—\$4,320,000 (1965 \$3,090,000)

Repayment is as follows:

\$1,020,000—6.50% Secured Debenture due May 15, 1978 (1965 \$1,090,000)

(exclusive of \$70,000 due May 15, 1967 shown as a current liability).

\$70,000 annually May 15, 1967 and 1968. The 1967 amount has been shown as a current liability.

\$95,000 annually May 15, 1969 to 1978 inclusive.

\$1,900,000—6¾% First Mortgage Sinking Fund Bonds due January 4, 1986 (1965 \$2,000,000).

The relevant company has covenanted to establish a sinking fund to provide for the retirement of \$100,000 principal amount of 6¾% First Mortgage Sinking Fund Bonds on January 4 in each of the years 1967 to 1985 inclusive. The current obligation has been met.

\$1,400,000 6¾% Secured debenture due July 31, 1981.

The relevant company has covenanted to redeem \$100,000 principal amount of this debenture on July 31 in each of the years 1967 to 1981 inclusive. The 1967 amount has been shown as a current liability.

7. PURCHASE FUND FOR REDEMPTION OF SUBSIDIARY'S PREFERENCE SHARES

On or before March 1 in each year, the relevant subsidiary company must set aside a purchase fund of \$20,000 for the purchase of preference shares for cancellation, until the said amounts set aside and not used or applied equal \$80,000.

8. CAPITAL STOCK, OPTIONS AND WARRANTS (See also Note 9)

Capital Stock:

77,905 shares were issued during 1966 for a cash consideration of \$30,990.

Options:

150,000 shares at \$2 per share expiring December 30, 1969 to a shareholder.

324,180 shares at \$3.979 per share to expire not later than August 31, 1972 to officers and employees of subsidiary companies (one of such officers being a director of the Company).

In addition, one of the subsidiary companies has outstanding options on 13,600 of its common shares at a price of \$2.50 per share. The said options expire March 31, 1969.

Share Purchase Warrants: (See also Note 9)

As a result of the sale of Series B Debentures there are share purchase warrants outstanding entitling the holders thereof to purchase an aggregate of 800,000 common shares of the Company at the following prices:

\$1.75 per share if exercised on or before June 30, 1970; thereafter

\$2.25 per share if exercised on or before June 30, 1972; thereafter

\$3.00 per share if exercised on or before June 30, 1974; and thereafter

\$4.00 per share if exercised on or before June 30, 1976; void thereafter.

9. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

Subsequent to December 31, 1966 the balance owing in respect of acquisition of a controlling interest of Tancord Industries Ltd. was liquidated as follows:

In cash, derived to the extent of \$1,100,000 from additional bank borrowings - - - - -	\$1,800,688
By the issue of 228,836 shares of the Company - - - - -	343,254
Total - - - - -	<u>\$2,143,942</u>

As part of the closing of the above purchase of a controlling interest in Tancord Industries Ltd. the Company has:

(a) Granted an option on 60,000 of its common shares at \$1.50 per share (at a maximum rate of 7,500 shares per year) to an officer of Tancord Industries Ltd., to expire not later than February 28, 1975.

(b) Entered into an agreement with the present holders of 275,865 preferred shares of Tancord Industries Ltd. under which the Company may purchase, or at the option of the holders may be required to purchase, these shares at \$3.25 per share by December 31, 1968.

10. PRINCIPLE OF CONVERSION OF FOREIGN ASSETS

Assets and liabilities in United States funds have been converted at the closing rate on October 31, 1966 which was the date of the fiscal year end of the subsidiary in which the assets and liabilities are situated. Use of the closing rate on December 31, 1966 would have produced converted values not materially different.

11. CONTINGENT LIABILITIES

In determining the estimated tax liability for the years 1964 to 1966 inclusive, a subsidiary company deducted interest and finance charges on long term debt. The tax authorities have taken the position that a portion of these charges do not qualify as a cost of earning income from the business and, if this portion is disallowed, the resultant taxes excluding interest could amount to approximately \$74,000. Arguments have been submitted in support of the subsidiary company's claim for allowance of these charges and if the tax authorities proceed to make assessments in accordance with their proposal, the additional tax payable, if any, will be a matter to be determined by the Courts.

